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National Home Center News®

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W.R. Grace launches new chain; Denny resigns

Division president expected to start own DIY operation

By Kenneth Schept
NHCN senior editor

NEW YORK—Frank Denny has resigned as president of the $875 million W. R. Grace home center division.

He is expected to soon launch a warehouse-type home center operation in San Antonio with David Saks, the recently retired, former Handy Dan president, according to several industry sources.

The resignation was submitted March 8, and by the end of that week W. R. Grace had not announced a successor.

Frank Denny

As head of Grace's 273-store, six-chain home center operations, Denny was widely regarded as one of the

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5 warehouse stores blitz New Orleans

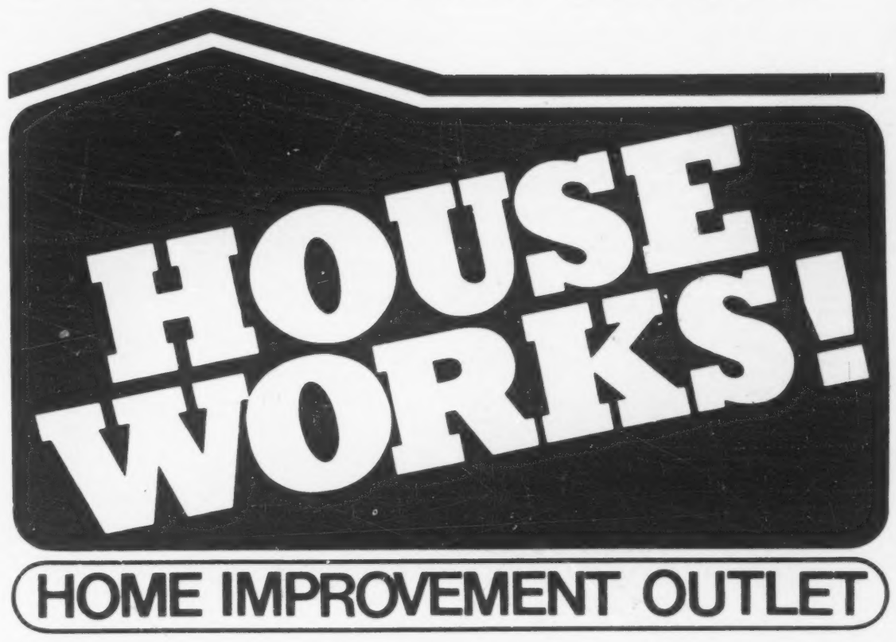
By Wyatt Kash
NHCN editor

NEW ORLEANS—W. R. Grace has just launched a new five-unit home center chain of "upgraded" warehouse-style stores here aimed at winning both professional and do-it-yourself customers.

The new chain is called House Works, and is being built from a formula that combines a 35,000-item product selection and extensive customer service in a 70,000-sq.-ft. store format, with a pricing strategy bent on not being undersold.

The first of five House Works stores opened March 16, in a converted 45,000-sq.-ft. Handy City outlet in Harvey, La., with a second outlet opening March 23 in 70,000 sq. ft. of a former Woolco store on Veterans Boulevard in Kenner, La.

Additional outlets are planned in the New Orleans suburbs of Marrero, Chalmette and Metairie—all due open by May 1—with added sites under consideration at two other New Orleans locations as well as in other major markets.



Grace has started a new chain of home centers called House Works.

"The format is really the culmination of maybe 15 different home center stores around the country, including the best of the Grace chains," said Frank Powers, vp-merchandising research and development for the Grace home center division. Powers, along with former division president,

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HomeOwners Warehouse pledge: lowest prices at 1st Florida unit

Mr. How, the DIY adviser, is the centerpiece of HomeOwners Warehouse's effort to supply customers with service. Mr. How can offer customers computer printouts of materials and prices.

COCONUT CREEK, Fla.—HomeOwners Warehouse opened its first unit here early this month with a written guarantee to customers that prices would be Florida's lowest.

The 70,000-sq.-ft. operation is also raffling off a two-bedroom home located in a nearby development.

Certain items seemed to be promoted literally below cost: a telephone for $9.88; gypsum, $2.47; solid mahogany panel doors for $37 and a bath vanity for $19.

The strong price image and bold giveaway seem easily explained. Seven miles away in this Fort Lauderdale area is a Home Depot outlet. The opening of HomeOwners places two warehouse-type, high volume operations head to head.

In addition, there is a Lindsley nearby and a Scotty's being built. Price is one of several approaches HomeOwners is taking to capture a niche for itself. Unique approaches to merchandising and customer service are also being attempted.

And refinements are already being considered with an eye toward opening a second unit this summer, according to Pat Sher, HomeOwners president.

While the former Lindsley president would not quantify his store's first-day performance, he noted that it went beyond his expectations.

"The parking lot was filled until we closed," he said. "We stayed open for another hour."

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Customer tests the product at this telephone display in The Home Depot's Orlando, Fla., store. NHCN photo

Home centers reach out to capture telephone sales

By Molly Brauer
NHCN field editor

NATIONAL REPORT—Home center buyers are now finalizing deals with telephone manufacturers in anticipation of doubling last year's sales, as a result of deregulation and widespread first-time telephone ownership.

Many home center chains that have offered phones on a limited, promotional basis will now expand to full departments, devoting 8 ft. to 12 ft. of gondola run to their lines.

Manufacturer prices for phones have slipped as much as 30% during the past few months. Buyers agree, however, that they have bottomed out and now is the time to purchase.

Generally, home centers will be taking merchandise from four major producers because of their return policy. Margins are expected to soften to 30% because of the level of competition.

Among home center chains poised to offer full lines of telephones and accessories are Handyman, San Diego; Payless Cashways, Kansas City; Chase-Pitkin, Rochester, N.Y.; Mass Hardware and Supply, Waltham, Mass.; Gee Lumber, Chicago, and Ernst, Seattle.

Said Lyle Gregory, merchandise and marketing manager for Lumberjack, Sacramento, Calif., which already carries 8 ft. of phones: "We'll probably have two or three years before

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NEWSBREAKS

HOUSING OUTLOOK REVISED UPWARD. McGraw-Hill has revised its estimate of housing starts this year to 1.475 million, based on declining interest rates. About 900,000 starts are expected to be single-family units, a 42% increase over 1982's figure. The revised Dodge/Sweet Construction Outlook predicts a drop in housing activity during the middle of the year, with a rebound to 1.55 million in the fourth quarter.

INSIDE:

SPAHN & ROSE sets a sizzling sales pace by aggressively merchandising DIY solar collector panel projects ..... **Page 2**
EXISTING SINGLE-FAMILY HOME SALES made record-breaking gains in January ..... **Page 2**
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NHCNews Briefs

Industry Update

Hechinger earnings up 37%

LANDOVER, Md.—The Hechinger Co. reports that net earnings went up 37% last year to $11.7 million on $241.3 million in total sales.

Annual sales, meanwhile, increased by $30.7 million, a 15% gain over the $210.6 million sum of one year ago.

The figures reflect a net margin of 4.8% for the year ended Jan. 29, 1983. The company posted a 4% margin in 1981, with profits of $8.6 million.

Fourth-quarter earnings jumped 53%, increasing from $2.4 million to $3.7 million during the 1982 period. Fourth-quarter sales also showed a substantial gain, growing 21% over the $46.6 million total logged in January 1982.

Comparable store sales were up 10% for the fourth quarter; 7% for the year.

Lumber City taps McNulty

SHERMAN OAKS, Calif.—Robert McNulty has been named president of 12-unit Neiman-Reed's Lumber City.

He replaces Robert Neiman, a founder of the chain, who assumes the post of chairman.

Neiman had indicated last summer when McNulty joined the chain that these personnel changes may eventually take place (*NHCN*, Aug. 2, 1982). The chairman's slot had been vacant since the death of co-founder Bob Reed in late 1981.

Gee hosts home & garden show

CHICAGO—After more than 20 years since producing a consumer DIY show, Gee Lumber, the 13-unit Chicago chain, introduced a home and garden event called "Meet the Pros" March 25-27 in its headquarters store.

"We're trying to get our spring business off to a rousing start this year," said president Jim Gee Jr. The show is being advertised and promoted widely in a move that will put Gee's name before the Chicago public.

The advertising includes radio, television and a tabloid featuring tie-in products. More than 60 manufacturers and suppliers have agreed to participate.

Gee will also offer 50 prizes worth more than $4,000 during the home and garden show.

Grossman's leases Calif. site

VENTURA, Calif.—Grossman's has signed a lease, subject to city approval, for a 70,000-sq.-ft. warehouse facility it plans to convert into what could be the largest store in the 200-unit chain.

Grossman's operates 29 stores in California, mostly in the north, that average 20,000 sq. ft. Its southernmost stores are in Lancaster and Bakersfield.

It plans to utilize 60,000 sq. ft. of the warehouse (previously owned by Sierra Roofing) and another 50,000 sq. ft. of outdoor selling space for commodities. Vendors report the chain, at presstime, had made commitments to purchase products in truckload quantities.

Grossman sources said they were not sure when a site proposal would be presented to the Ventura City Council, and would not comment on when the store would be opened, how it would be laid out, or whether it was a prototype for further southern California expansion. "This is a real estate opportunity we're taking advantage of," said one company spokesman," but it does not mean we're making major changes in the chain."

He said he was unaware of any negotiations for other sites taking place. However, local dealers and manufacturers claiming familiarity with the chain's plans said Grossman's would open the store by mid-June, will employ a warehouse-type retail format, and could possibly be using this as a springboard for four or five such stores.

The Ventura unit would be run by Rich Feichter, an 11-year Payless Cashways vet, and managed by Jack Roadie, each of whom would report to Frank Lynch, general manager for Evans Products Western Retail Group in San Carlos.

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Vol. 9, No. 7 March 28, 1983

Spahn & Rose clinics help boost sales of solar collector panels

DUBUQUE, Iowa—Spahn & Rose Lumber's main yard may offer a modest 2,000 sq. ft. of selling space here, but its sales of DIY solar collector panel projects have been anything but modest.

The 25-unit chain sold 100 DIY solar collector projects at $200 each last year.

"With the push we're making in advertising and clinics, those sales will double in 1983," said Dwayne Huston, vice president and manager of the Dubuque yard.

Part of that effort has been in the form of half-hour clinics at a local home show, as well as more formal two-hour sessions at the chain's headquarters. About half of the people attending the class end up buying the solar collectors, according to Bob Haverland, architectural designer for the chain.

"You don't have to be a professional or get technical to sell solar heat collectors," he said.

Since most of the materials needed for the solar projects, like lumber, are already sold at home centers, it may be only a matter of time before solar packages are more readily available at those outlets, since, according to the Spahn & Rose experience, they do stimulate additional sales.

"There will be a day in the near future when K marts will carry this," said Haverland.

He said Spahn & Rose sells most of the material for the projects at a 50% markup, with a 75% markup on smaller, finishing items like neoprene washers and sealing tape. The only items not normally found at home centers are the special glazing and air blowers.

The chain has been selling collectors for five years, since it took on a unit manufacturered by a Nebraska company named Hotline. That collector retailed for about $345 and required professional installation.

Pictured here is a Spahn & Rose installation of their solar panel kit, which is adaptable to different home designs.

For the past three years Spahn & Rose has offered the DIY plans provided by Northland Solar, which also supplies Wickes, Sutherland, Great Plains and Lamperts.

The typical DIY solar collector now being promoted by Spahn & Rose through DIY clinics at the main yard and at local home shows in Dubuque is a 4-ft. x 8-ft. panel. It consists of a frame, glazing and a blower to circulate the warm air, and it is sold with blueprints to construct the project.

Spahn & Rose advertises the solar collectors on radio and in newspapers about nine times a year, plus draws additional traffic with the clinics. The chain has also developed some add-on sales by the addition of a locally popular aluminum fascia. The panels are sometimes promoted at a sale price of $208 with the fascia.

Another sales help, featured in Spahn & Rose ads, is the consumer tax credit for home energy-saving improvements.

The enthusiasm and growing sales at Spahn & Rose have convinced Haverland to expand the program by introducing solar heat storage cells (currently sold at Wickes, Spahn & Rose's only home center competition on the panels). The cells will retail for about $5.95 sometime this summer. "Each storage cell is capable of storing as much heat as 80 lb. of rock," said Haverland.

A typical purchase, he said, could be 30 to 40 cells.

Jan. home sales increase 38% over last year

WASHINGTON—The greatest monthly increase in sales of existing single-family homes occurred in January, according to the National Assn. of Realtors, (NAR), which has kept housing information for the past 16 years.

January's seasonally adjusted 2.61 million units sold was 38.1% ahead of January 1982, 40.3% over the cyclical low of 1.86 million units reached last August and 15.5% more than December.

It was the fifth consecutive month of higher sales. The South showed the greatest improvement with 1.12 million units, 31.8% ahead December. The healthy resale activity in the South corresponds to seasonally adjusted starts for that region, which reached one million in January.

The apparent return of confidence among the home buying public is particularly good news for the home improvement industry. More people moving has traditionally meant increased remodeling and general upkeep, which translates into increased retail sales.

As Hechinger senior vice president Phil Mansfield noted at the recent National Home Center Show, when asked to comment about the strengthening housing market, "When you get transience, it's good for everybody."

According to Harley Snyder, president of the NAR, a further

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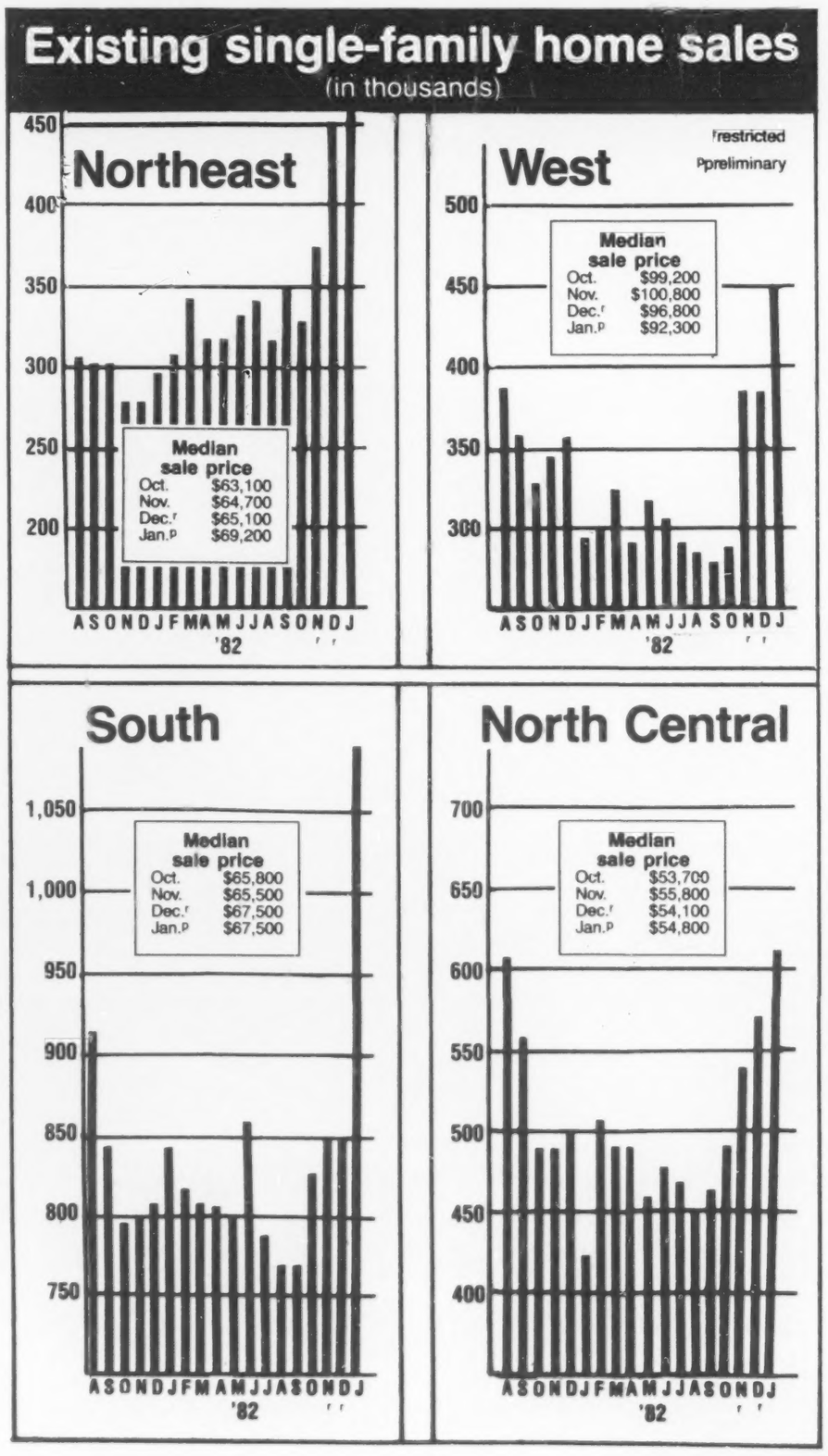


Retailers tap telephone market

(Continued from page 1)

these things turn into CB radios. But in the interim, we're going to make a lot of money."

Meanwhile, a rash of vendors are now striving for a piece of that business.

"They're coming out of the woodwork," was the way Lowe's merchandising vp Bob Cannon summed up his chain's experience with telephone suppliers earlier this year.

There are literally hundreds of vendors for low-end, promotional telephones, which are often imported. But most buyers agree that the serious contenders for home center business have narrowed to major producers—GTE, ITT, American Bell and General Electric.

The reason for this contraction stems primarily from the biggest problem facing telephone merchandisers: Who will provide service when there's no more Ma Bell to make house calls? The solution that home center retailers have sought is an assurance of over-the-counter returnability.

"We started with GTE, because we wanted to start with a brand name," said Cannon, who explained that his chain will not carry lines from suppliers who don't provide over-the-counter returns—which limits the field to the brand name companies. Cannon predicted this strategy will yield a 70% to 100% increase in dollar volume for Lowe's in 1983.

The G.E. line, not yet available to the public, has generally drawn a mixed review from retailers.

"They were showing it to anyone who cared to see it at the Consumer Electronics Show in Las Vegas," said Cannon, who added that in his opinion "GE had really done its homework."

"It's a super line, cosmetically appealing with about 10 models, very similar to American Bell's line," said Cannon.

Ernst's Larry Smith, an electrical buyer, felt the line would present psychological merchandising problems: "It's too dissimilar to the phone company's big six sellers to command the high-end price. When customers spend that much they want something they can recognize."

Smith preferred ITT's product because, "it's identical to Ma Bell's."

American Bell, the telephone company's new marketer of Western Electric phones entered the business with a bang last January, announcing its first two customers—Sears and Target. But as this issue went to press, spokesmen for American Bell said that no major home center customers had yet been added to their roster.

"We're more interested in American Bell than GE," said Harry Miller, electrical buyer at Gee Lumber. He felt that the completeness of American Bell's line would counteract the footballing that is "turning phones into 1983's smoke detectors," and would better position Gee for long-term telephone sales.

Miller concurred with buyers who felt that the pricing slide of the past three months had bottomed out. Margins will continue to tighten through 1983, in his view, but accessories will be the exception.

"Accessory margins will stay near 45%, except on promotion," Miller said.

John Breedlove, Payless Cashways' merchandising vp, said "Margins will probably seep down to the low 30's on telephones in the next year."

The tight margins don't worry retailers, however, who are predicting record growth in 1983, and a sustained market in the next 5 to 10 years.

"It looks like we'll have a 10% increase per month," said Bernard Perkins, Scotty's electrical buyer. In addition to 4 ft. of phones in its stores, Scotty's stocks phones in its warehouse

Scotty's also sells answering machines priced from $108 to $150, as well as a half a dozen sku's of telephones priced from $14.99 to $108. The complete line at Scotty's is composed of GTE equipment.

Perkins also felt that home centers will continue to enjoy a 30 to 50% niche in the telephone market for the next five or six years. "I don't think everyone will buy their first phone overnight. It's a big investment but the number of phones per household is growing. Homes will have two or three phones, and people will continue to buy phones as money permits," he said.

Handyman vice president Norman Fox said that his chain was in the process of developing its own program rather than adopting the line of one manufacturer. "We don't intend to concentrate on novelties," he said, explaining that Handyman would probably devote about 8 ft. in its stores to a combination of domestic and imported phones—priced from around $20 to $80.

Lumberjack's Gregory said 1982 telephone sales were $100,000 for the seven-unit chain. He expects 1983 sales to double or triple that figure.

There don't seem to be many buyers whose projections for 1983 sales are temperate, but Stephen Underwood, president of Chase-Pitkin, is not planning a major push into telephone merchandising. The chain now carries two colors of a standard ITT desk phone, priced at $34.95.

"Our problem is competition from discount stores and catalog houses," he said. "And telephones are difficult to display properly and keep from getting stolen."

Grossman's new bargain outlets

(Continued from page 3)

"The stores have never seemed to crack any substantial retail volume here, so a merchandising change might not be such a bad idea," said Henry Noffke, president of the independent Noffke Lumber, Oshkosh. Local industry sources also noted that Grossman's has suffered most adversely from the expansion and pricing strategies of Menards, and they conjectured that the GBO conversions could be a competitive response.

Since 1976, Menard's growth could be viewed as a frontal assault against Grossman's: in Green Bay, the two chains are crosstown rivals; in Oshkosh, their stores are across the street from one another, and the big test will come in Milwaukee when Menard's opens its new 80,000-sq.-ft. store across the street from a Grossman's unit.

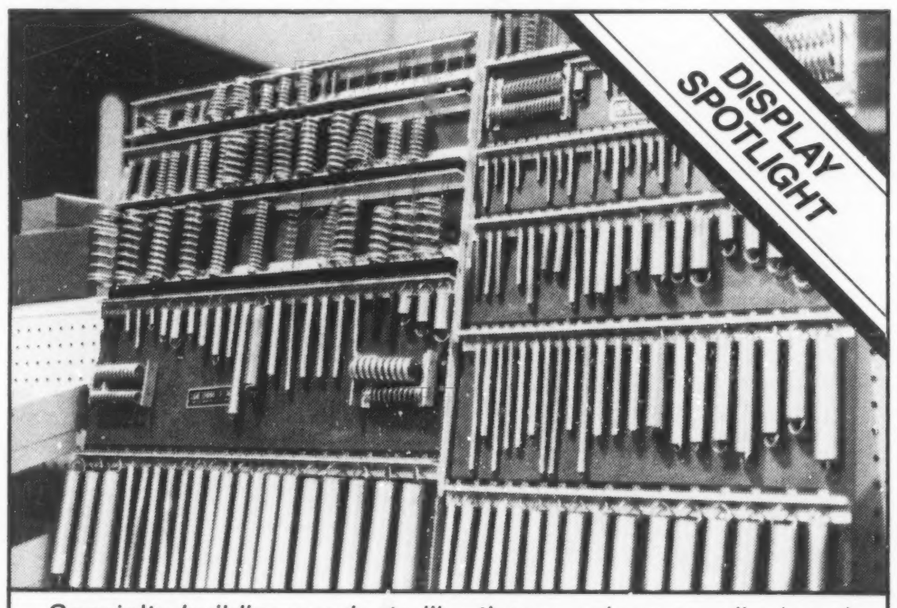
Menard's has always been known as an aggressively promotional chain, and the company gave new meaning to competitive merchandising and pricing recently by carrying paint with Channel Home Center labels and selling it for $3.96 a gal. This kind of "cutthroat" pricing, according to one local retail source, has forced Grossman's to reduce its margins to "under 25% from the mid-30% range" just to keep pace with Menard's.

When asked whether the GBO conversions were being done to counter the effects of Menard's on Grossman stores in Wisconsin, a Grossman source stated that "I cannot remember us ever making a decision based on one factor, but all the elements affecting a market are always comsidered before we make any marketing changes." He reiterated that the conversions should not imply any strategic realignment within the company.

Another Grossman's spokesman affiliated with the GBO stores entirely disregarded the Grossman's-Menard's connection. "People can believe what they want, but we're not changing those units to GBO stores because of competition, but because they are too small," he said. "I still believe the Red Sox are going to win the pennant, but that doesn't make that true, either."

Both sources said there were no plans to convert the five standard-sized Milwaukee Grossman stores into GBO units. But with the two chains battling it out throughout the state, how will other local competitive stores react?

There's always a market for service, and that's what we'll promote besides price," said Dave Boyles, director of advertising for the six-unit Kindt Corp., Lomira. Noffke of Noffke Lumber said his ads would state directly that his stores carry items different from those at either Menard's or Grossman's. And Hal's Gritz said his stores would continue to "try and be ourselves. And if we cannot be competitive, we'll switch vendors to make us competitive."



Specialty building products like these springs are displayed on a pegboard at ABC Lumber, Costa Mesa, Calif. NHCN photo

Canadian tariff

(Continued from page 3)

The Northeastern Lumber Manufacturers Assn., 81% of lumber sold in Vermont is Canadian; in New Hampshire and Maine, 74%. In Delaware the figure is 84%; in Florida and Georgia, 55%, according to the Western Resource Alliance, a trade group.

Indeed 90% of Sherwood Lumber's inventory is Canadian, according to Goodman.

Kuehne points out that this Canadian penetration has hurt United States producers who were already ailing from the housing recession. While he concedes that Canadian producers are also suffering from the economic downturn of the past few years, Kuehne feels that the pain was not as intense north of the border.

A preliminary finding issued by the U.S. International Trade Commission last November found that United States lumber producers had been hurt by their Canadian counterparts. However, imposition of a duty would require both this finding of injury as well as the determination that Canada subsidizes its industry.

"We're seeking equity and it's being read as if we're trying to gain a tremendous advantage," said Kuehne. "I'm really miffed at home builders and others who say we are seeking big advantages."

Housing

(Continued from page 2)

increase in people changing homes can be anticipated.

"Thousands and thousands of people are coming back into the marketplace as a result of lower interest rates, and they are discovering that the home they contemplated purchasing early last year but couldn't afford because of high interest rates is worth another look now," Snyder said. His remarks were contained in an NRA press release.

The statement also noted that a recent public opinion survey discovered that 33% of those polled during the last quarter of 1982 answered that it was a good time to buy a home, compared to 18% who answered that way in the third quarter.

While other regions did not move up as dramatically as the South during January, resale activity increased overall in each region, although only moderately in the West.

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